M Corporate Benefits

ANNUITY INSIGHTS

QUALIFIED LONGEVITY ANNUITY CONTRACT

What is a QLAC?

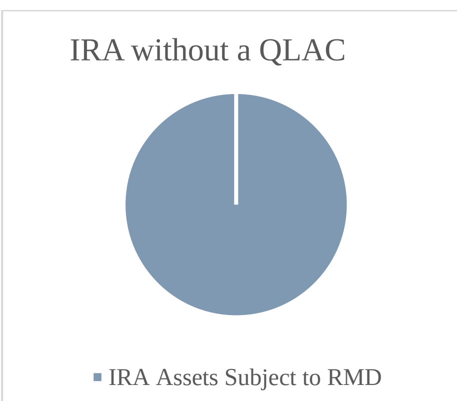
Effective July 1, 2014, the U.S. Treasury Department released the final regulations for the Qualified Longevity Annuity Contract (QLAC). The QLAC provides advisors with a new and unique tool for helping retirees hedge their longevity risk by deferring withdrawals on a portion of their Individual Retirement Account (IRA) assets. The regulations allow an IRA owner to direct the lesser of $125,000 or 25% of retirement account funds into a Deferred Income Annuity (DIA). Income would not need to be declared until age 85, and the portion of assets used to purchase the QLAC deferred income annuity are omitted from the Required Minimum Distribution (RMD) calculations, allowing those assets to defer taxation until the latter years of retirement.

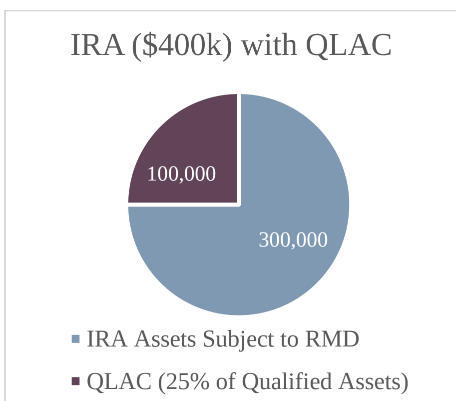
Why Should Investors Consider a QLAC?

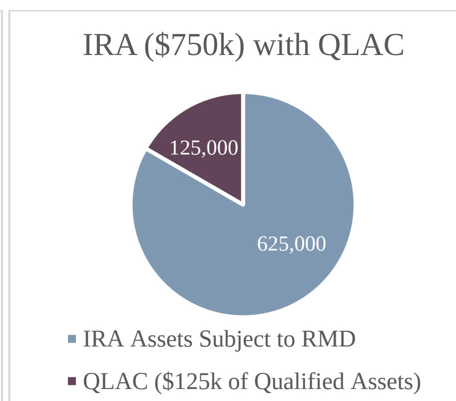
The primary benefit of a QLAC is to hedge for longevity risk (the risk of outliving one's income) by guaranteeing an income stream for the latter years of retirement.

In addition, by utilizing a QLAC, taxpayers may avoid or reduce the amount of Minimum Distributions they are required to take from IRAs. Higher RMDs have the potential to place taxpayers in a higher tax bracket resulting in:

- Greater taxation of Social Security Benefits
- Potential for higher premiums for Medicare Parts B and D
- Increased exposure to the new 3.8% Net Investment Income tax
- Higher overall income taxes







The lesser of 25% or $125,000 may be directed into a QLAC

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Hedge Longevity Risk With Guaranteed Income For Life

A QLAC can be designed to provide lifetime income with or without a cash refund benefit and return of principal guarantee.

- **Life with Cash Refund** – The income stream is guaranteed as long as the owner/annuitant is living with a lump sum cash refund in case he or she dies before receiving the original deposit.

- **Life Only** – Some products may also offer a life-only income payout that will provide a guaranteed lifetime income without a return of principal death benefit. In the event of a premature death, the original deposit amount will be forfeited.

For investors looking to defer more income than the QLAC maximum amounts allowed, a DIA contract may be purchased with other nonqualified assets to create a larger income stream for the later years of retirement.

EXAMPLE CASE STUDY: JAMES TUCK

James Tuck is a healthy 65 year-old who believes he is going to live for a very long time, and he wants to make his assets last. He has $750,000 in an IRA as well as several nonqualified liquid and illiquid investments worth another $825,000. While talking to his financial advisor, James decides he would like to take advantage of the QLAC opportunity as he thinks he will be in a lower tax bracket later in retirement, and he would like to take advantage of the opportunity to defer taking his RMDs for as long as possible.

Client Specifics

Client: James Tuck

Current Age: 65

Current IRA Assets: $750,000

Other Investable (nonqualified) Assets: $825,000

Goal: Defer the maximum amount of his IRA assets using a Qualified Longevity Annuity Contract, with income commencing at age 85.

Determining Purchasing Limit For a QLAC

The maximum amount of qualified assets that can be used to purchase a QLAC equals the lesser of:

(1) $125,000, or
(2) 25% of his IRA assets, or 25% of $750,000 = $187,500

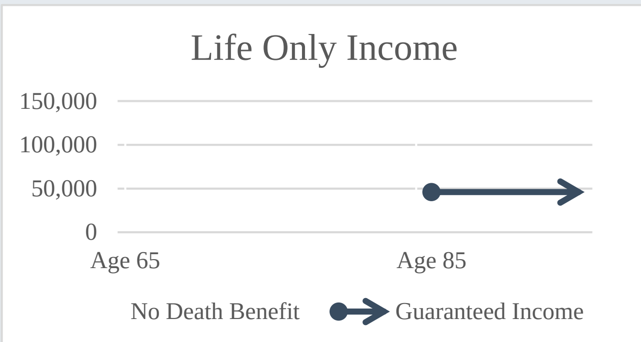
Because 25% of his IRA exceeds the $125,000 limit, the most James can contribute to a QLAC is $125,000.

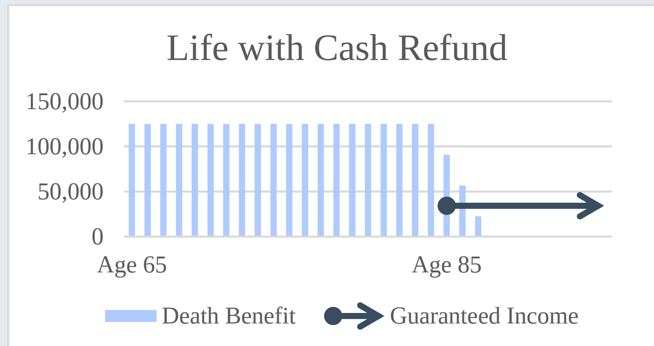
Income Options

James has determined that he would like to defer income on his QLAC for as long as possible, so his advisor provides him with two income options beginning when James turns 85 years old.[1]

(1) **$46,000 life only** income providing guaranteed income for the rest of James's life with no guarantees in the case of premature death.

(2) **$34,175 of life income with a cash refund** and a return of principal death benefit for any portion of his original deposit that he has not received as income.





The Solution

James purchases a QLAC inside his IRA, electing the life with cash refund payout option so that he can:

- Defer taxation on a portion of his assets for his later retirement years when he will be in a lower tax bracket.
- Reduce the amount of assets that will be assessed for RMDs when he reaches age 70½ while still providing a benefit to his beneficiaries in the case of his premature death.

Provide a longevity hedge for himself, ensuring a guaranteed income stream, beginning at age 85, which he will not outlast, no matter how long he lives.

[1] This is for illustrative purposes only. Actual income amounts may be more or less than what is illustrated above based on the rates at the time when the contract is purchased.